Senior Tax Credit Task Force

November 14, 2008

Since the Senior Tax Credit Task Force last reported to the County Council (November 13, 2007), the Task Force has met an additional 4 times. The Task Force has reviewed the County's experience with the senior property tax credit during the first year and most of the second year. Based on a careful review of the available data, the task force does not recommend any changes to the law at this time. However, this report highlights several areas where the consequences of the current law deserve mention. These are: the interaction with the State tax credit, the asset test, progressivity, and administrative issues.

Task Force

Council Resolution 145-2005, extended by Council Resolution 144-2007, specified the membership of the Task Force and identified the appointing authorities. Under this authority, the membership of the Task Force was:

- Janice Bloodworth, appointed by Council member Watson from District 1,
- Randall Nixon, who was replaced by Larry Lewis, who later resigned, appointed by Council member Fox from District 5,
- Sue Brown, appointed by Council member Sigaty from District 4,
- Colin Burke, appointed by Council member Ball from District 2,
- Curt Curtis, who resigned and was replaced by Mitra Basu, appointed by Council member Terrasa from District 3,
- Pat Dornan, who represented the Howard County Taxpayers Association who resigned,

- Susan Buswell, who represented the Howard County Chapter of the League of Women Voters,
- Frank Chase, who represented the Association of Community Services,
- Peter J. Rogers, who represented the Howard County Economic Development Authority,
- Joel Yesley, who represented the Howard County Citizens Association,
- Don Dunn, who represented the Commission on Aging,
- Ted Meyerson, elected by the members as chairman, also represented the Commission on Aging, and
- Sara Hamer and Sherman Howell, who represented the Office on Aging.

The Task Force also included 2 non-voting ex officio members from County government:

- Ron Weinstein and Ray Wacks, the former and current Budget Directors, often represented by Donald Stitely, and
- Sharon Greisz, the Director of the Department of Finance, represented by Linda Watts, Chief of the Bureau of Revenue.

Background

The County Council originally enacted the senior property tax credit with Council Bill 68-2006. Based on the February 2007 recommendations in the first report of the Task Force, the County Council enacted Council Bill 10-2007 and Council Resolution 22-2007, which implemented most of the recommendations. Council Bill 10 repealed the legally-suspect freeze, pegged the income test to an index, added an asset test, clarified the application of other tax credits, and required certain outreach measures. Council Resolution 22 called on the business community, particularly tax preparers, to publicize the availability of the credit.

Results

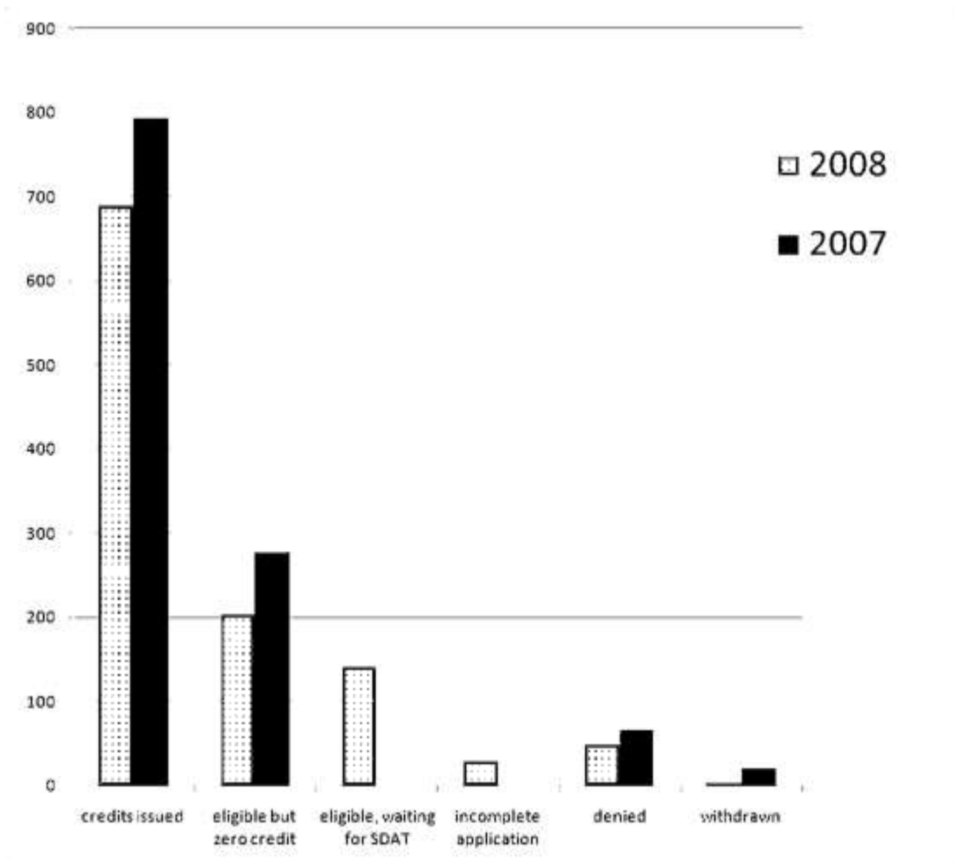
For the tax year that ended on June 30, 2008, 1,157 taxpayers applied for the senior property tax credit. Of those, 794 were issued credits by the County. Of the remainder, 277 received State credits that reduced their County tax bill by 25% or more and, thus, were not eligible for additional credits from the County. An additional 65 were found to be not eligible for a credit and 21 withdrew their applications. Most of the ineligible applicants had incomes that exceeded the ceiling; however, some were not old enough and some had assets above the limit. The average County senior tax credit was $388.15, which resulted in an average final County tax bill for recipients of $1,456.09. The total cost to the County was $415,709.58. The Task Force notes that the bulk of the County credit went to those with incomes over $40,000 but less than the ceiling, which was $68,450. Thus, State credits went mainly to the poorest taxpayers and County credits went mainly to the next wealthier tier.

For this tax year, as of October 29, 690 taxpayers received senior property tax credits from the County at a total cost of $397,221.41. Data for this tax year will not be final until sometime next winter, but the changes until then are unlikely to be significant. To issue those credits, the County has processed 1,116 applications. Of the applicants who did not receive senior tax credits from the County:

- 203 received State credits that reduced their County tax bill by 25% or more and, thus, were not eligible for additional credits from the County;
- 142 are eligible for a County credit but the applications had not yet been processed by the State Department of Assessments and Taxation;
- 29 submitted applications that were missing information;
- 48 were denied County credits because the applicant was not eligible; and

- 4 withdrew their applications.

Senior Tax Credit as of October 29, 2008



Consequences

The current year's data show a pattern substantially the same as that shown for the previous year. Again, the bulk of the County credit went to those with incomes over $40,000 but less than the ceiling, which has risen to $70,000. Thus, State credits still went mainly to the poorest taxpayers[1] and County credits still went mainly to the next wealthier tier. The Task Force notes that this pattern, while it certainly comports with the language of the ordinance implementing the credit, is distasteful to a vocal minority of the task force. This issue was discussed

[1] It should be noted that the State credit is calculated by a sliding-scale formula that gives the poorest such a substantial reduction that the final distribution of County tax levied could be interpreted as progressive.

extensively and the task force members in the minority fervently maintain that the County should grant its own credit regardless of the credit granted by the State.

Asset Test

The Task Force does not recommend any change to the asset test, which excludes taxpayers with at least $500,000 of certain kinds of assets. However, the task force notes that the asset test adds complexity to the application process. Discussion at Task Force meetings included both the view that people should be expected to use their assets to pay their debts, including their property taxes, and the view that considering only some kinds of assets is complex and unfair. Under current law, the asset test treats differently savings in conventional accounts and savings in retirement accounts. Pensions with defined benefits that adjust with inflation, for example, have significant value to taxpayers, but are ignored by the asset test. Additionally, for the targeted population, formal retirement plans and other kinds of excluded assets, were less common choices during their working years.

Income and Age Tests

The Task Force also carefully reviewed the income test, set at 5 times the federal poverty level for a family of 2, and the age test, which is 70. There was little sentiment to change the income test. A change to the age test would require action by the General Assembly. Changes in either of these tests could have dramatic effects on the cost of the credit to the County.

Progressivity

Among the members of the task force, there is some sentiment towards making the credit progressive. Under such a scheme, poorer taxpayers would receive larger percentage credits. The maximum percentage could remain at the current 25% or it could be increased up to 100% for the poorest taxpayers. A progressive scheme would probably meet the approval of the Task Force, but there is concern over the additional complexity. We note that a change along these lines might expand the total cost of the credit to the County. Doing so will reduce the tax burden on one group – low income seniors – but may result in other groups having to pay more. This shift of the tax burden might be interpreted as inequitable and may erode community support for the tax credit. Despite these concerns, the Task Force has been presented with the notion that the need to assist seniors to age in place is paramount and should supersede other concerns.

Targeted Population

It is important to note that, in its report one year ago, the Task Force estimated that between 1,800 and 2,400 taxpayers would be eligible for the senior property tax credit. The actual number for the first year was 1,071 (794 granted credits plus 277 who received State credits that exceeded 25%). To date, for the second year, the number is 893 (690 granted plus 203 with large State credits). Although this number is markedly smaller than our estimate, we do not know whether the pool of those who might be eligible is smaller than we thought or whether many of those who might be eligible are unwilling or unable to apply. The Task Force is impressed by the diligent efforts of the Department of Finance to notify all taxpayers about the credit and provide materials and assistance to those who wish to apply, which suggests that the target population has been sufficiently notified. Nevertheless the Task Force has been presented with the notion that the application is so complex that seniors are dissuaded from applying. In contrast, the Office on Aging reported to the Task Force that the Office has had little demand this year for help with the application.

Cost to the County

Our report from last year also estimated that, the senior property tax credit would cost the County between $1.5 and $2 million a year. The actual costs, $415,709.58 last year and $397,221.41 so far this year, are also markedly lower than the estimate. By falling so short of the estimated cost, the tax credit could be seen as a failure; however, this is not the majority view of the task force.

Last year, the Department of Finance estimated on-going annual costs of $42,000 to administer the credit. .... <waiting on data from Linda> The Task Force was presented with the interpretation that, because only about 80% of the applicants were granted County credits, 20% of the administrative effort was futile. But, in light of the significant increase in the numbers of seniors newly receiving State credits[2], the Task Force as a whole did not conclude that the administrative effort was so wasted as to warrant decoupling the two credits.

Conclusion

The Department of Finance is administering this somewhat complicated property tax credit in an efficient manner. The credit has been granted to fewer people and cost the County less than originally anticipated. The credit alone does not allow all seniors to age in place. No changes are recommended at this time.

The Task Force would not have been able to complete its work without the assistance of the Department of Finance, whose representative, Linda Watts, was unfailing in her patience and responsiveness. For this, we thank her. We would also like to thank Diana Coll and Jeff Meyers from the staff of the County Council for their help in completing our work.

[2] Only 168 seniors received the State homeowner's tax credit for the 2006 tax year,